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SUBJECT: CHILE'S ENERGY HIGHLIGHTS -- MAY 2009

REF: (A) SANTIAGO 496; (B) SANTIAGO 349; (C) SANTIAGO 189

¶1. SUMMARY: This cable provides highlights of activity in the Chilean energy sector during May 2009. The Ambassador participated as a panel speaker at the 8th annual ElecGas conference in Santiago. At the event, experts noted new generation projects may create transmission bottlenecks for Chile's central grid and result in higher electricity prices in Santiago. In response to Santiago's poor air quality, the GOC ordered utilities and industries in the capital to stop using diesel fuel and replace it with natural gas by August 2009. On May 13, the bill to create an Energy Ministry was unanimously approved by Chile's Senate Mining and Energy Committee; it now faces a full Senate vote. The most recent Chile Oil and Gas Report forecasts that the country will account for 4.55 percent of Latin American regional oil demand and 2.95 percent of gas consumption by 2013. On May 21, President Michelle Bachelet announced a lowering of the maximum fuel tax. April electricity demand in Chile's central and northern grids was higher compared to the same period last year. END SUMMARY.

Ambassador Speaks on U.S. Policy at Energy Conference

¶2. Ambassador Simons gave a speech entitled "The State of Energy in the World and the Policies of the United States," at the 8th annual conference of ElecGas Energetico in Santiago on May 26. The purpose of ElecGas is to share information and "know-how" aimed at addressing the energy sector's challenges. Other sessions covered the economics of energy, Chile's electricity sector, renewable energy options, electricity transmission technologies and challenges, energy efficiency, and nuclear energy. The seminar was attended by hundreds of executives, professionals, and technicians from Chilean companies, government representatives, academics, and market analysts.

Chile's Central Grid May Face Transmission Bottlenecks

¶3. The ElecGas conference also featured discussions about whether Chile will be able to transmit enough electricity to meet its expanding energy needs. According to several experts, new coal and wind generation capacity set to come online before 2013 could face transmission bottlenecks in the northern part of Chile's central grid (Sistema Interconectado Central or SIC). These bottlenecks create local power markets, which can lead to higher prices.

¶4. The principal concern is that, due to fixed transmission capacity, thermal plants may have to reduce output to allow new renewable capacity to enter the grid. If there is not enough transmission capacity to handle all the new generation capacity, higher electricity prices for Santiago may result. [Note: As of December 2008, SIC managed 9,800 MW of installed generation capacity or about 70 percent of Chile's total installed power (53.9 percent hydroelectric, 45.9 percent thermal, and 0.2 percent wind), and more than 15,000 km of transmission lines. End note.]

¶15. Chile's use of diesel fuel has increased dramatically over the last few years in the wake of natural gas cuts from Argentina. In response to weeks of poor air quality, in mid-May the GOC ordered utilities and industries in Santiago to stop using diesel fuel and replace it with natural gas by August. By that time, construction of a re-gasification terminal in Quintero will be complete and liquefied natural gas (LNG) shipments should be arriving in Chile.

¶16. Environment Minister Ana Lya Uriarte stated that all enterprises must now comply with the environmental requirements of their operations or face fines and revocation of their permits. There has been a deterioration in air quality and an increase in environmental alerts in Santiago since 2004 (4 alerts in 2005, 14 in 2006, 22 in 2007, and 14 in 2008). According to Uriarte, "With the return of natural gas there will be a substantial improvement of air quality, we will recover the environmental gains we had before the [natural gas] cuts."

Law Creating New Energy Ministry Moves to Senate

¶17. The bill to create an Energy Ministry was unanimously approved by Chile's Senate Mining and Energy Committee on May 13. The proposed legislation has been submitted to the full Senate for a vote, which may take place in June though no date has been set. The legislation outlines the role and functions of an Energy Ministry, including setting policy, managing the gas stabilization fund, and regulating the electricity sector.

Chile's Oil and Gas Report -- Second Quarter 2009

¶18. The 2009 second quarter Chile Oil and Gas Report forecasts that the country will account for 4.55 percent of Latin American regional oil demand by 2013, while making no meaningful contribution to supply. Chile's share of gas consumption in 2008 was an estimated 2.84 percent, with a significant share of production. By 2013, its share of gas consumption is forecast to be 2.95 percent.

GOC Reduces Maximum Permitted Fuel Tax

¶19. During her May 21 State of the Nation address, President Bachelet announced that the maximum specific fuel tax would be \$295/m³. The tax is currently \$230/m³, but by law it could have been increased to \$390/m³. [Note: This tax applies to gas and diesel; higher taxes equate to higher fuel prices for drivers. End Note.] The announcement was applauded by parliamentarians of all political parties and by Energy Minister Tokman, who lauded President Bachelet's support of all Chileans during the global financial crisis.

April Demand Higher in SIC and SING Grids

¶10. The April demand for electricity in the SIC grid (serving Chile's Central and Southern regions, and predominantly private consumers) was 2.1 percent higher year over year (YoY); April demand in the SING grid (Northern Chile, mainly industrial users) was 4.1 percent higher YoY. Demand in the SING is up 6.9 percent for the year, driven by the needs of the region's mining industry. At the end of April, using YoY comparisons, demand had increased in all sectors (residential, commercial, industrial). Notably, demand in the mining and agriculture sectors grew 4.7 percent and 5.6 percent, respectively.

SIMONS